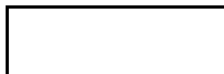


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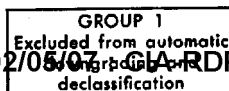
SOVIET REVIEW OF ITS AID PROGRAM IN INDIA: PROBLEMS AND PROSPECTS



CENTRAL INTELLIGENCE AGENCY
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SOVIET REVIEW OF ITS AID PROGRAM IN INDIA:
PROBLEMS AND PROSPECTS

The USSR is reviewing in detail its aid program in India in the wake of Soviet Deputy Premier Mikoyan's brief stopover in New Delhi in July following his visit to Indonesia. The study is being undertaken by V. Sergeyev, a Deputy Chairman of the Soviet State Committee for Economic Relations, who accompanied Mikoyan on his Asian trip. Sergeyev remained in New Delhi, where, for the next several weeks, he will confer with Indian officials and gather information on the projects that the USSR is committed to construct during the period of India's Third Five Year Plan (1961-66).

At the present time the Soviet aid program in India consists of nearly two dozen projects, many of which are large-scale industrial units in the steel, heavy machinery, and power industries. Installation of equipment has begun on four major Soviet projects -- the Neyveli powerplant, two heavy machinery plants, and a petroleum refinery at Barauni -- but most of the projects are still in stages preparatory to construction.

Recent reports suggest that Indian dissatisfaction with the rate of delivery of Soviet equipment provided a strong stimulus for the Soviet review now underway. For example, it is reported that a number of Indian officials in their discussions with Mikoyan requested a speedup of promised deliveries of material for Soviet aid projects under the aegis of their various ministries. Generally speaking, even with due regard for the time requirements of a large-scale aid program, disbursement of Soviet aid has not been at a pace that the Indians might reasonably expect. Thus, of about \$810 million of Soviet aid pledged since 1955, only about \$200 million has been spent, and nearly three-fourths of this amount was required for one project -- the Bhilai steel plant. Deliveries under credits totaling \$670 million available for projects during the period of the Third Five Year Plan amount to only about \$60 million, although most of these deliveries are related to a credit extended in 1956.

Indian dissatisfaction with the Soviet program is focused in particular on deliveries of equipment for power projects and for the oil exploration program in the public sector, two fields in which Soviet performance has been particularly

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slow. The USSR is under severe criticism for delays in the supply of thermal-power-generating equipment. The immediate effect of this situation has been to place the commissioning of units at the Soviet-aided Neyveli powerplant many months behind schedule. Of more critical significance over the long term, however, are indications that the USSR may not be able to fulfill total commitments for delivery of power equipment during the period of the Third Five Year Plan. According to a statement a few months ago by the Indian Minister for Power in the Lok Sabha, the USSR promised equipment for four powerplants having a total installed capacity of 950 megawatts (mw). Discussions held in New Delhi and in Moscow indicated that only a few units at these powerplants -- some 450 mw altogether -- are likely to be commissioned in the plan period as against the total capacity envisaged. A shortfall of this magnitude would severely limit India's ability to overcome its chronic power shortage.

The reasons for lagging Soviet deliveries at Neyveli and for possible cutbacks in the total number of power units to be delivered from the USSR are not entirely clear. Soviet production of power equipment in general appears to be adequate to meet current domestic requirements. Administrative bottlenecks within the USSR and within the Soviet foreign aid program, in particular, may partly explain these deficiencies in Soviet performance. Part of the problem may also lie with Indian officials who have not always fulfilled their administrative and technical responsibilities in a timely and decisive manner.

In the field of petroleum exploration, an area where Soviet aid to the program for the public sector totals about \$100 million, delivery of equipment also has been slow, and Indian authorities are expressing concern that as a consequence the program will suffer a serious setback.

According to a press report, the Oil and Natural Gas Commission (ONGC) of India, the body responsible for the government's oil development program, furnished a list of requirements to the USSR in 1961, but, as of mid-1962, Moscow has not indicated when it will sign an implementing agreement and will schedule the supply of equipment. The prestige and value of public sector enterprise is involved in the oil exploration program, and Indian officials are anxious to see this program advance as rapidly as possible. Recent press reports indicate that the ONGC may send a team to the USSR to expedite developments in this area of Indo-Soviet cooperation.

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Although deficiencies in the Soviet aid program are serious problems in themselves, current economic difficulties in India and resulting concern over prospects of fulfilling the targets of the Third Five Year Plan probably have sharpened the edge of Indian criticism of the USSR and have intensified the need to insure timely fulfillment of Soviet commitments. Steadily dwindling foreign exchange reserves, uncertainty over levels of external assistance during the plan period, continuing structural deficiencies in the economy, and lagging implementation of many plan projects have generated an atmosphere of anxiety in India. A responsible Bombay newspaper, The Financial Express, recently expressed this concern:

The complacency with which we launched the Third Plan has now given place to anxiety. The symptoms of the malady that beset the Second Plan in 1957 /foreign exchange shortage and over-ambitious planning/ have reappeared. A 'crisis of ambition' has set in ... The planners may not be willing to admit this yet, but the Plan will have to undergo considerable revision.

Faced with uncertainties regarding the outlook for fulfillment of the Third Five Year Plan, therefore, Indian officials are especially anxious to insure that the USSR can be relied on to meet its aid commitments and to do so on schedule.

The Soviet review now underway indicates that the USSR is sensitive to Indian criticism and that it intends to determine what can and should be done to accelerate progress on Soviet projects. As Mikoyan indicated to Indian officials, it is unlikely that any concrete steps will be taken before Sergeyev completes his study and Moscow has had an opportunity to examine it. Reportedly, however, Mikoyan did promise to investigate the possibility of expediting deliveries of thermal-power-generating equipment, even the possibility of diverting such equipment from domestic Soviet projects. Whether or not his comment conforms to Soviet intentions, it does suggest that Mikoyan at least viewed the situation with concern.

While in New Delhi, Mikoyan reportedly also told Indian officials that the USSR would consider favorably requests

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for aid for projects under the Third Five Year Plan not covered by credits from Western countries. In the short run, expeditious implementation of existing Soviet commitments would be most welcome by Indian authorities, but there is no reason to believe that they would not accept additional Soviet assistance as well.

Soviet economic aid for India's Third Five Year Plan is a fraction of the assistance that India is to receive from the West -- \$670 million in Soviet aid (about \$800 million for the entire Sino-Soviet Bloc) over the entire plan period as against \$2.4 billion from Western sources for the first 2 years of the plan with additional aid to be decided on thereafter. Aid to India by the USSR, however, does represent the largest concentration of Soviet economic aid to any country outside the Bloc. The USSR may be expected, therefore, to take all feasible steps to sustain the aid program at a high level of efficiency and prestige. To accomplish this objective, it will be necessary to improve present Soviet performance, to maintain reasonable momentum in implementing aid projects, and, conceivably, to inject additional credits into the aid program at some point in the near future.

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